

# **San Francisco Health Service System Health Service Board**

## **Rates & Benefits**

Review and Approve Health Net CanopyCare Non-Medicare  
Medical/Rx Flex-Funded HMO Plan 2027 Stabilization  
Reserve Action

Presented by Mike Clarke, Lead Actuary, Aon

March 12, 2026

# **Review and Approve Health Net CanopyCare Non-Medicare Medical/Rx Flex-Funded HMO Plan 2027 Stabilization Reserve Action**

## **Agenda**

- Introduction—Health Plan Reserves Background
- 2027 Rate Stabilization Recommended Action for Health Net CanopyCare Flex-Funded HMO Plan
- Recommendation for HSB Action
- Appendix—Historical View of Rate Stabilization Actions for Health Net CanopyCare HMO Plan, Reconciliation Exhibit Glossary

# Recommendation for HSB Action

Health Net CanopyCare Non-Medicare Medical/Rx Flex-Funded HMO Plan

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization fund balance in plan year 2027 plan rates to apply proportionately between active employees and non-Medicare retirees as follows:

Health Net CanopyCare HMO plan: apply a **Surplus** amount of \$445,000 (or one-third of \$1,335,000) towards buy-down of rates across all rating tiers for plan year 2027.

# 1

## Introduction—Health Plan Reserves Background

# SFHSS Health Plan Reserves Background

## Three Reserves for SFHSS Self-Funded/Flex-Funded Plans

### Today's Discussion Focuses on Third Below — Stabilization

- 1) **Incurred But Not Reported (IBNR):** Actuarial estimate of the unpaid claim liability for run-out claims where services were incurred on or before a given date, but those claims have not yet been paid as of that date; **calculated annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2025, for most recent reserve cycle).
- 2) **Contingency:** Statistically determined amount which protects against potential for funding estimate shortfalls which could occur when the actual claims incurred over a plan year would exceed projected claims when developing premium equivalents; **calculated annually as of June 30 (last day of fiscal year)** for SFHSS plans (e.g., as of June 30, 2025, for most recent reserve cycle).
- 3) **Stabilization:** Annual determination of the financial gain or loss for the self-funded/flex-funded plans; **calculated annually as of December 31 (last day of plan year)** for SFHSS plans (e.g., as of December 31, 2025, for today's review of the self-funded and flex-funded health plans stabilization amounts).

# SFHSS Health Plan Reserves Background

Recommended June 30, 2025, IBNR and Contingency reserves amounts were approved by the Health Service Board (HSB) on January 8, 2026.

The HSB's Self-Funded Plans' Stabilization Policy requires an annual determination of the financial gain or loss over a calendar year for each self-funded and flex-funded health plan. The difference between the expected and actual plan costs for the just-completed plan year is added to the existing Stabilization Reserve balance, and per policy is amortized over a three-year rating period.

This presentation contains exhibits showing the impact of actual 2025 Health Net CanopyCare HMO plan experience relative to original 2025 plan cost expectations from the Spring 2024 Rates & Benefits cycle—along with the resulting December 31, 2025, rate stabilization fund balance and allocation of this balances into 2027 plan year stabilization rate portions of Health Net CanopyCare HMO plan rate cards.

# 2

## Health Net CanopyCare HMO Plan

# Health Net CanopyCare HMO Plan

## Rate Stabilization Calculation Introduction

The rate stabilization calculation for 2027 rating is based on 2025 plan experience relative to expectations for the Health Net CanopyCare HMO Plan, combined with surplus carry-forward balance from the plan's December 31, 2024, rate stabilization fund amount.

The Health Net CanopyCare HMO plan was first offered to SFHSS active employees and non-Medicare retirees on January 1, 2022. Enrollment in the plan has grown steadily since its initial introduction, resulting in higher dollars of actual 2025 plan experience versus those forecast during Spring 2024 using initial plan enrollment.

The 2025 plan experience is included in the evaluation of rate stabilization balance updates as of December 31, 2025—and forms the basis for the 2027 plan year rate stabilization recommended action for this plan.

# Health Net CanopyCare HMO Plan

## Expected Versus Actual Assessment for 2025 Plan Year

The Health Net CanopyCare HMO plan had a prior accumulated carry-forward surplus balance for use in rate stabilization calculations after 2025 of \$1,419,000.

For the 2025 plan year, plan experience was similar to expectations on a headcount-adjusted basis. A stabilization rating buy-up of \$332,000 applied for the 2025 plan year. The combination of plan experience results and an increase in contingency reserve produced a small decrease to the stabilization reserve for this plan as of December 31, 2025.

The expected and actual figures are illustrated on the next page. The contingency reserve amount change reflects the 95<sup>th</sup> percentile confidence interval figure as of June 30, 2025.

# Health Net CanopyCare HMO Plan 2025 Plan Year Reconciliation

## Active Employees and Non-Medicare Retirees

January 2025 – December 2025 Plan Reconciliation (Actual vs Expected)	Expected	Actual
1 Paid Claims IBNR Increase/(Decrease)		\$14,556,225 <u>(\$18,796)</u>
Total Incurred Claims Spend	\$11,387,641	\$14,537,429
2 Administration Expense — includes PCORI Fee	\$715,548	\$887,400
3 Rx Rebates	<u>(incl. in Rx claims)</u>	<u>(\$523,414)</u>
4 Total Cost (1+2+3)	\$12,103,189	\$14,901,415
5 Total Contributions	<u>\$11,771,189</u>	<u>\$14,665,253</u>
6 Revenue Shortfall/(Surplus) (4-5)	\$332,000	\$236,161
7 Increase/(Decrease) in Contingency Reserve		<u>\$179,789</u>
8 Total Shortfall/(Surplus) (Actual column: 6+7)		\$415,950
9 Aon Recommended Carry Forward Shortfall/(Surplus) (Actual 8 – Expected 6; rounded to nearest \$000)		<u>\$84,000</u>

**NOTE:** Descriptions for items above contained in Appendix to this document

# Today's Recommendation—Health Net CanopyCare HMO Plan

## Rate Stabilization Reserve Calculation

Stabilization <b>surplus</b> balance as of December 31, 2024	(\$2,129,000)
Offset <b>surplus</b> amount applied in 2026 rate buy-down per policy (1/3)	(\$710,000)
Prior carry-forward stabilization <b>surplus</b> balance	(\$1,419,000)
Recommended decrease to the <b>surplus</b> based on 2025 experience	\$84,000
Stabilization <b>surplus</b> balance as of December 31, 2025	(\$1,335,000)
Calculated amount per amortization policy to apply to 2027 rate <b>buy-down</b> per policy (1/3 of stabilization <b>surplus</b> balance)	(\$445,000)
Updated carry-forward stabilization <b>surplus</b> for use after 2027	(\$890,000)

### Today's Recommendation

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization reserve **surplus** or \$445,000 (one-third of \$1,335,000) be applied towards buy-down of rates across all rating tiers for the Health Net CanopyCare HMO plan for plan year 2027, and apply proportionately between active employees and non-Medicare retirees.

# 3

## Recommendation for HSB Action

# Recommendation for HSB Action

Health Net CanopyCare Non-Medicare Medical/Rx Flex-Funded HMO Plan

In congruence with the Stabilization Fund Policy, approve the use of one-third of the December 31, 2025, stabilization fund balance in plan year 2027 plan rates to apply proportionately between active employees and non-Medicare retirees as follows:

Health Net CanopyCare HMO plan: apply a **Surplus** amount of \$445,000 (or one-third of \$1,335,000) towards buy-down of rates across all rating tiers for plan year 2027.

# 4

## Appendix

- Historical View of Rate Stabilization Actions for Health Net CanopyCare HMO Plan
- Reconciliation Exhibit Glossary

# Rate Stabilization History—HN CanopyCare HMO Plan

Column reference --->	B	C	D	E	F	G	H	I	J	K
Year for Rating Application	Starting Point Stabilization Reserve / Deficit Carry Forward as of date	Starting Point Stabilization Reserve / (Deficit) Carry Forward (col K from prior year)	Expected Revenue Surplus / (Shortfall)	Actual Revenue Surplus / (Shortfall) - Item #6 from Stabilization Calc Exhibit	Transfer from (Increase) / Decrease in Contingency Reserve	Increase / (Decrease) to Stabilization Reserve (E+F-D)	Updated Stabilization Reserve / (Deficit) (G+C)	Revised Stabilization Reserve / Deficit as of date	Reserve / (Deficit) Amount Applied in Year for Rating Application	Reserve / (Deficit) Amount Applied to Carry Forward (H-J)
2024	12/31/2021	\$0	\$0	\$533,000	(\$180,000)	\$353,000	\$353,000	12/31/2022	\$118,000	\$235,000
2025	12/31/2022	\$235,000	\$0	\$862,000	(\$101,000)	\$761,000	\$996,000	12/31/2023	\$332,000	\$664,000
2026	12/31/2023	\$664,000	(\$118,000)	\$1,749,000	(\$402,000)	\$1,465,000	\$2,129,000	12/31/2024	\$710,000	\$1,419,000
2027	12/31/2024	\$1,419,000	(\$332,000)	(\$236,000)	(\$180,000)	(\$84,000)	\$1,335,000	12/31/2025	\$445,000	\$890,000

# Reconciliation Exhibit Glossary

- 1 Estimated Incurred Claims including claim payments for medical, pharmacy, and capitation in January–December 2025.
- 2 Administration Expense — Cost of administering January–December 2025 claims payments for medical and pharmacy.
- 3 Rx Rebates — Rebates from drug manufacturers for active employees and non-Medicare retirees.
- 5 Total Contributions — Annual premium revenue collected.
- 6 Revenue Shortfall/(Surplus) — Difference in cost versus premium revenue collected.
- 7 Contingency Reserve — Explicit reserve held to cover excess losses.
- 9 Actual shortfall/(surplus) minus expected shortfall/(surplus) — Amount added to existing stabilization balance per HSB policy and amortized over three years.